KENJOL
CAPITAL MANAGEMENT

June 6, 2014

Greetings,

We hope you are doing well and have plans in place for some summer fun. We're writing to update you on several new initiatives here at Kenjol.

The Quarry Lake photo on the right is taken from our new northwest Austin office. It is so beautiful and has a walking trail around the small lake – great when you need some fresh air. We would love to schedule time to visit with you at the office or our favorite restaurant on the other side of the lake.

Why Stocks Could Fall 21% in 2014

We continue to see "not normal" market actions for equity markets. If you follow the headlines, you will see that most major equity indexes are at or near their all-time highs. Will stocks take a breather from their march higher?

We have officially entered the market's least favorable season, which generally runs from April/May through October/November. History shows this can be a weak period for stocks, so we always use extra caution.

This year we have another reason to be cautious, too. The second year (midterm) of a president's term is usually the worst part of the presidential election cycle. From a football perspective, history would say we should play more defense than offense.

According to *Stock Trader's Almanac*, since 1913 the Dow has dropped 20.9% on average from its post-election-year high (2013) to its subsequent low in the following midterm year (2014). Using last year's close of 16,577, an "average" decline during this seasonal period would take the Dow down to 13,122 – a bear market for sure. Yesterday, the Dow closed at 16,836, so the market is not following history or any "models" so far this year. That could change over the summer months.

Since 1980, the S&P 500 has averaged an intra-year drop of 14.4% at some time during each calendar year while finishing positive in 26 of those 34 years. Here are the intra-year declines for the S&P 500 the last 5 years:

- 2010 -16%
- 2011 -19%
- 2012 -10%
- 2013 -6%
- 2014 -6%

Put another way, if you want your portfolio 100% correlated to the S&P 500, you must also be comfortable with the following:

- An average intra-year (every year) decline of -14.4%
- Intra-year declines of -30% in 2001, -34% in 2002, -49% in 2008, and -28% in 2009
- Almost thirteen years of zero total return on the S&P 500 from March 2000 until mid-year 2013. (Wow, that's a long time!)

Normally, major corrections occur in the first or second year following presidential elections. We did not get a major correction in 2013 as equity markets have continued to climb walls of worry, buoyed by continued accommodative global central bank policy.

Perhaps that will change in 2014? In the last 13 midterm election years, a bear market began or was in progress nine times. We experienced bullish years in 1986, 2006, and 2010, while 1994 was flat. So, 2014 could still be a bullish year.

Dow 22,800? Why a 50% Gain in the Dow is Possible into 2015

History shows a more bullish outlook once we move past summer and into fall. Since 1914, the Dow has gained 48.6% on average from its midterm election year low (2014) to its subsequent high in the following pre-election year (2015). A swing of that magnitude from the 2014 low (15,373) would take the Dow to a record high of 22,844 sometime in 2015. While we are not predicting a move to these record levels, we do see further upside in global equity markets in the year ahead.

The smallest midterm advance, 14.6% from the 1946 low, was during the post-WW2 industrial contraction. The next four smallest advances were 21% in 1978 (OPEC – Iran), 23% in 1930 (economic collapse), 27% in 1966 (Vietnam), and 32% in 2010 (European debt). Even matching the smallest advance would take the Dow to 17,617 in 2015. We would expect major resistance at the 20,000 level just as we got at the 10,000 level. Since we haven't had a major swoon down in 2014, we expect the upward move to be below the historical average of 48.6%.

One catalyst which may move markets higher comes from across the pond. Europe is slowly crawling out of its own "Great Recession" and appears to be in a similar situation as where U.S. markets were in 2010. Accordingly, Europe appears to provide better value right now, with U.S. equity markets more fully valued at current levels.

In terms of the implications on your individual situation, we recommend you consult with us over the summer to determine how to position your portfolio going into 2015.

Kenjol Operations

We continue to receive positive feedback regarding our Kenjol SmartView Client Portal. While many of our clients are now utilizing its capabilities, others may need help logging in and / or navigating the site.

The portal tool can be accessed from the home page of our website, www.kenjol.com. Please contact us if you need to have your password reset.

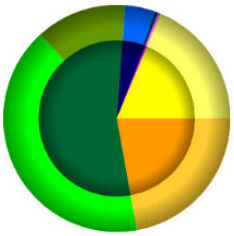
Our recent email communications mentioned the addition of new reports to the Kenjol client portal. Specifically, we added two new asset allocation reports:

- Asset Allocation – Nested (top chart right): Shows your asset allocation both at the asset class level (inner ring) and the detail sector level (outer ring) on the same chart.

- Asset Allocation – Asset Class over Time (bottom right): Shows how your portolio asset allocation has changed over the past five years.

Asset Allocation - Nested

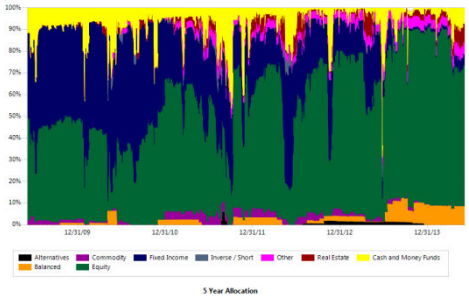
As of 05/29/2014



Asset Class	Current Value	Current Percent
Balanced	**29,496.10**	**22.18%**
Asset Allocation	29,496.10	22.18%
Equity	**71,778.19**	**53.98%**
Domestic Equity	54,600.54	41.06%
International Equity	17,177.65	12.92%
Fixed Income	**6,386.35**	**4.80%**
Preferred Security	5,670.38	4.26%
Real Estate Income	715.97	0.54%
Other	**488.36**	**0.37%**
Master Limited Partnership	488.36	0.37%
Cash and Money Funds	**24,817.00**	**18.66%**
Money Market	24,817.00	18.66%
Total	**132,966**	**100.00%**

We know many of you currently use iPad's to view the client portal. We are working on an iPad app and anticipate it will be available later this year.

Asset Allocation - Asset Class over Time for All Accounts



New Alternative Investment Options

High-net worth investors are increasingly using a diverse range of investment vehicles, including alternative investments. Our primary custodian, Fidelity Investments, has the technology and resources to administer a broad range of these alternatives. In fact, this is one of the fastest growing areas at Fidelity. Last year, we began using alternative investments on a limited basis for some clients where appropriate.

Alternative investments are one of the most significant and growing asset classes. They give investors ways to bring alternative and non-correlated investments into a portfolio. Alternatives can take many forms, including third-party registered and unregistered investment funds. Other alternatives include structured products, registered non-traded REITs, hedge funds, private equity, private real estate, etc. Many are now available to us with no transaction cost and low investment minimums.

Why use alternatives? Since 1999, equity markets have experienced four periods with maximum drawdowns of 28% or higher (2009 was -51%). Alternative investments may help reduce the severity of drawdowns and allow investors to remain invested during periods of market uncertainty.

Please let us know if you'd like additional information on alternative investment opportunities.

New Investment Managers

We typically execute our Kenjol investment strategies by allocating your portfolio to mutual funds and exchange traded funds (ETFs). Recently we began using a third investment vehicle: separately managed accounts (SMAs). Today, we'd like to share with you a basic overview of the offering.

While we can access separately managed account managers directly, we have chosen to invest in them through **Placemark Investments**. The Placemark platform connects to hundreds of investment strategies, in many cases with lower minimum investments than if we accessed the strategy directly. Placemark also offers product flexibility, meaning that you can own multiple managers all in the same account.

What is a separately managed account?

When we purchase a mutual fund on your behalf, we are selecting a manager to choose stocks and /or bonds. You don't see their day-to-day transactions; the rolled-up performance shows up at the end of each day for the overall position. A separately managed account is similar, but instead of seeing the overall performance as a single line item in your account, you see all positions held and each transaction.

Why invest in a separately managed account?

While there are multiple reasons, our main goal is to access investment managers who don't offer their strategy in a mutual fund format. In most cases, these are smaller managers who have not yet accumulated the assets to justify the cost of forming a mutual fund.

Is this right for me?

We believe we can accomplish our client's objectives whether or not they utilize separately managed accounts. The SMA is simply the investment vehicle. Contact us if you would like to discuss how the use of SMAs may apply to your individual financial situation.

Conclusion

As we near the third quarter of 2014, we encourage you to consider your asset allocation to ensure you are best positioned for the current investment landscape. If you would like to discuss your personal financial situation in more detail, please do not hesitate to contact us to schedule a review.

Best Regards,

Kenny Landgraf & David Levy